A long and muddy road to recovery

But the prairie sky now looks dry

by John Caulfield

It's been raining in Texas for a long time.

Virtually every town in the state had received its average annual rainfall by late spring. Forty inches had fallen on Houston in the first five months of 1992. Flooding after Memorial Day in the 25 counties that make up the Cotton Patch wiped out almost two-thirds of the 3 million-plus acres of plantable land projected for this season.

Hail storms, which have become an annual event, have pelted Texas homes so mercilessly that roofing suppliers have had to put dealers in many areas on allocation.

This "crazy weather," as one retailer put it, is just one more cross Texans have borne as they trek that long road back to recovery in the state's economy and pride. That road, though, is still pretty muddy.

Oil and gas exploration, which in many ways still defines at least the image of Texas, has hit rock-bottom. Unemployment is high, with some areas at double-digit depths (*see charts, p. 140*).

But Texas, which over the past decade has endured crises in the energy and banking industries, and now faces similar threats from cutbacks in defense spending (the state has 26 military bases, according to the Pentagon), is moving forward. And as Texans dry themselves off, some see clear skies ahead.

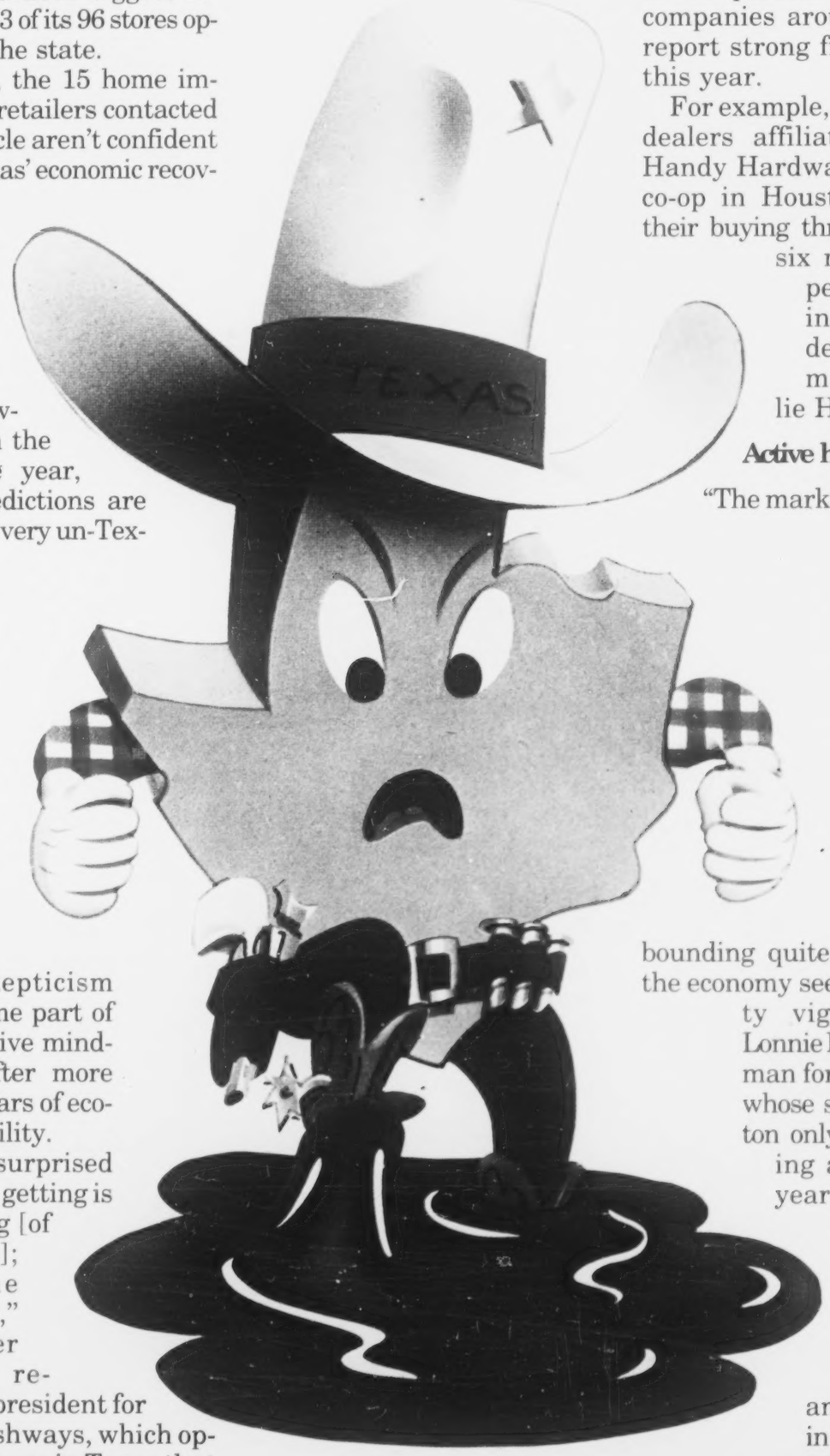
For example, business has been "very positive" for the 80 dealers along the Gulf Coast of Texas that are affiliated with Hardware Wholesalers Inc.

Their purchases from the co-op shot up by 21 percent in HWI's latest fiscal year, which ended on June 30. That's on top of a 26 percent growth in buying during fiscal 1991.

"They're investing more in inventory, remodeling, and advertising more aggressively; it's really exciting," says Matt Mullin, the co-op's area manager based in Tomball, Texas. But Mullin, who's been in the state since 1982, isn't doing cartwheels yet. "This year, we're not quite as positive as we were a year ago. We still have a long way to go."

"It's been slow, but the state is definitely recovering compared to five or six years ago," adds Brian McCoy, president of McCoy's Building Supply Centers, the market's biggest retailer with 83 of its 96 stores operating in the state.

However, the 15 home improvement retailers contacted for this article aren't confident yet that Texas' economic recovery is sustainable. While sales growth shows no signs of slowing through the rest of the year, dealers' predictions are laced with a very un-Texas-like skepticism that's become part of their collective mindset here after more than five years of economic volatility.



'I'm not surprised what you're getting is a mixed bag [of responses]; that's the way it is," says Roger Weverka, regional vice president for Payless Cashways, which operates 41 stores in Texas that generate more than half a billion dollars in annual sales. "There are areas that look like they are being re-energized, but it's been kind of sporadic."

Signs of improvement

In some ways, Texas' economy has been so weak that it has nowhere to go but up. "People have been holding off for so long that they have to start fixing their homes," says Becky Hahs, the marketing manager at Builders Square, for which the market has produced "excellent sales" this year.

Weverka of Payless says he first saw signs of customers loosening the purse strings a bit in 1990, when his Texas stores "had a substantial [comp-store sales] increase—9 to 10 percent." And many companies around the state report strong first-half sales this year.

For example, the 515 Texas dealers affiliated with the Handy Hardware Wholesale co-op in Houston increased their buying through the first six months by 15 percent, according to Handy's dealer services manager, Charlie Hearne.

'People have been holding off for so long that they have to start fixing their homes.'
Becky Hahs,
marketing manager, Builders Square

Active housing market

"The market has been rebounding quite briskly [and] the economy seems to be pretty vigorous," says Lonnie Fogel, a spokesman for Home Depot, whose stores in Houston only started turning a profit a few years ago. "People down here seem to have more confidence and are now doing some amazing things in home improvement."

A sizable chunk of some dealers' good fortunes is coming from home building contractors and remodelers at a time when housing construction around the rest of the country is miserable and many dealers in Texas have walked away from that business. Recovery in home building now is still a far cry from the early 1980s, when Texas built over 300,000 homes in one year. But it's a start.

"Everything is going nuts all over the state," claims Barbara Douglas, president of the Lumbermen's Association of Texas. "Remodeling is booming, and there's a lot of home building going on." Parker Beebe, president of 18,000-square-foot Beebe Lumber in Amarillo, reports that his area has seen more home construction activity "than at any time since 1983," and anticipates his sales will increase by 25 percent this year.

"The really amazing thing is that we've managed to have a strong housing recovery right in the middle of the savings and loan mess," notes Dr. Jack Hawkins, research director for the Texas Real Estate Resource Center in College Station. With nearly 300 S&Ls collapsing into insolvency only a few years ago, Hawkins says mortgage banks are filling the lending void, although he still fears a shortage in lending capital in the future.

Just how long home building will keep expanding, though, is anybody's guess. "I must say I don't know where the people are coming from that are moving into the houses they're building," says Walter Foxworth, the president of the Foxworth-Galbraith chain.

(Texas' population increased by about 6 percent to 17.3 million between 1990 and 1991, according to Commerce Department estimates.)

Beebe also notes that servicing the home building market has been a mixed blessing because lumber prices have fluctuated so wildly this year. "The price of lumber is so volatile that it's tough to maintain margins."

Two markets

Making money, in fact, remains a major challenge for most home improvement retailers in Texas, recovery or no recovery, as the retail landscape in Texas has changed dramatically over the last few years.

Texas is really two markets: one of huge metroplexes, like Dallas-Fort Worth or Houston-Brazoria-Galveston, that are crammed with competitors; and another of small, ru-

(Continued on page 138)

The Texas market at a glance

TEXAS' LEADING HOME IMPROVEMENT RETAILERS[1] By stores operated in the state

(Headquarters in Texas, if applicable)

Retailer	Store Count *(total market annual sales, estimated from chainwide per store averages)*
McCoy's Building Supply Centers (San Marcos)	83 ($261 mil.)
Payless Cashways	41 (503 mil.)
Higginbotham-Bartlett (Lubbock)	36 (16 mil.)
Foxworth-Galbraith (Dallas)	30 (97 mil.)
Home Depot	20 (592 mil.)
Sutherland Lumber	20 (198 mil.)
Builders Square (San Antonio)	19 (260 mil.)
Higginbotham Bros. (Comanche)	18 (15 mil.)
Alamo Lumber (San Antonio)	14 (36 mil.)
Bartlett Enterprises (Canadian)	9 (15 mil.)
84 Lumber	7 (15 mil.)
Cassity Jones Lumber and Hardware (Longview)	6 (20 mil.)
Zarsky Lumber (Victoria)	6 (20 mil.)
Big Tin Barn (Conroe)	5 (42 mil.)
Bison Bldg. Mat'ls. (Houston)	4 (46 mil.)
Cashway Building Centers[2] (El Paso)	4 (23 mil.)
Abilene Lumber (Abilene)	4 (12 mil.)
West End Lumber (Houston)	3 (40 mil.)
Stripling Blake (Austin)	3 (38 mil.)
Wickes Lumber	3 (16 mil.)
HomeBase	2 (38 mil.)
Matt's Cash & Carry (Pharr)	2 (26 mil.)
Olshan Lumber (Houston)	2 (23 mil.)
Montalbano Lumber (Houston)	2 (17 mil.)
Bering Home Center (Houston)	2 (16 mil.)
Guadalupe Lumber (San Antonio)	2 (16 mil.)
Elliott's Hardware (Dallas)	2 (15 mil.)
Totals	347 $2.35 bil. *(Nearly 30 percent of the total market annual sales, based on* Editor & Publisher *estimates.)*

[1] As of July 1992.
[2] Owned by Builders Emporium.

NHCN research and chart

Other major retailers with home improvement departments

Retailer	Store Count
Wal-Mart	275[1]
K mart	156
Color Tile (Fort Worth)	59
Target	50
Jones-Blair (Dallas)	20
Wallpapers to Go (Houston)	12[2]

[1] Includes Wal-Mart, Sam's Wholesale Club, Wal-Mart Super Centers and Hypermart USA; figures for 1991.
[2] Includes one company-owned unit in Dallas; all others franchised.

Sources: Company officials; Chain Store Guides Directory of Discount Department Stores

NHCN research and chart

Major chains dominate the Texas home improvement market, even in areas where they don't have stores because their advertising has such wide reach. The charts above show that home improvement retailers find stiff competition in certain categories from discounters and specialty stores.

HOME RESALES

May 1991-April 1992 (% chg. from May 1990-April 1991)

City	Resales (in units)	% Chg.
Houston	32,191	(1.0)
Dallas	18,947	6.0
Fort Worth*	8,930	11.7
Austin	6,941	1.9
San Antonio	6,649	3.3
El Paso	4,641	0.7
Lubbock	1,765	3.8
Amarillo	1,660	1.3
Midland	1,507	(8.4)
Odessa	743	(5.4)
Brazoria	638	11.0
Galveston	357	0.3
Corpus Christi	NA	
Laredo	NA	
Texas total	97,961	0.5

* Includes Tarrant Co. figures
Source: Texas Real Estate Resource Center, Texas A&M, College Station

NHCN charts

SINGLE-FAMILY HOUSING PERMITS

May 1991-April 1992 (% chg. from May 1990-April 1991)

City	Permits (in units)	% Chg.
Dallas	12,414	26.0
Houston	10,442	16.7
Fort Worth	4,657	7.3
Austin	3,614	85.0
San Antonio	2,249	38.1
El Paso	1,865	3.3
Galveston	1,132	29.5
Brazoria	912	27.4
Laredo	640	23.6
Lubbock	524	42.0
Corpus Christi	506	16.6
Amarillo	202	56.6
Midland	200	(15.6)
Odessa	87	(93.3)
Texas total	43,499	24.1

HOUSING STARTS Austin*

(in units)

	1992	1991
January	161	72
February	117	83
March	176	87
April	146	111
May	163	114
Total	763	467

*Includes Travis County
Source: Austin Builders Association

NHCN chart

Unlike other parts of the country, where home building is still in the dumps, the housing market in Texas has been quite strong statewide this year, and especially in larger metro markets like Austin and San Antonio. Dealers wonder, though, how long-term this activity will be.

Mexico's regulations hit border sales

Retailers grapple with unpredictable but beneficial market

PHARR, Texas—It's another hot day along the Mexican border, and Danny Smith is grappling with the crisis of the week in his efforts to sell to customers coming north over the border to buy home improvement products.

Smith, the general manager of two Matt's Cash & Carry units, here and in San Benito, is complaining about the Mexican government and its personification, president Carlos Salinas de Gortari, which in early June lowered the amount of products people could take over the border to $50 from $300. He notes that a few weeks earlier, the Mexican government restricted taking 2-inch board across the border.

With a sigh of resignation, he notes that "all this could change tomorrow."

The economies of Mexico and Texas are intertwined in so many ways—history, employment, retail sales, law enforcement—that it's often hard to tell where one ends and the other begins. That demarcation will become even fuzzier if Mexico reaches an agreement with the U.S. and Canada on trilateral trade currently in negotiation.

Mexican market frustrating

For the most part, American retailers see benefits from the trade they generate from Mexican customers. HomeBase has seen strong sales from its two stores in the border city of El Paso, where it plans to open a third unit eventually. Builders Emporium operates four Cashway Building Centers in El Paso, including a 50,000-square-foot unit on Airways Drive that enjoyed a 15 percent increase in its sales in the first half of this year, according to assistant store manager Carlos Arellano.

Matt's Cash & Carry store in Pharr—a 35,000-square-foot unit sitting on 17 acres that last year did three-quarters of the company's $26 million in sales—also does across-the-border business. But Smith believes those sales are too unpredictable to base any growth strategy upon.

"In our trading area, with 700,000 people and plenty of competition, the Mexican market looks tempting," he admits. "But only a small percentage of Mexicans have enough income to be your customers." The consensus of opinion is that only 10 percent of Mexico's 81 million people earn enough to shop in a home center (*NHCN*, March 10).

Doing business in this market would be tough even if the Mexican dilemma didn't present itself. Smith notes that the southernmost tip of Texas includes three of the poorest counties in the U.S., where some people live in houses that are only 600 square feet.

"People here are usually buying only basic building materials, and it's very difficult to get them to trade up to products you can make money on," he says.

Competitors abound

And, for such an impoverished area, there are an inordinate number of retailers, including seven McCoy's, a few Wickes Lumbers and several independents. Smith hears that Builders Square will invade in September and that Home Depot is looking at this trading area, too.

In preparation for real or imagined competition, Matt's has installed its first computerized point-of-sale system into its stores.

Last year, the displays in the stores were reconfigured so that more merchandise would be exposed to customers. And the company is preparing its first ad circular program (it is already on television and radio).

The current sales picture for Matt's has been mixed. Smith says business was "okay" in the first quarter and that construction in the area has picked up, if more on the commercial than the residential side.

Nevertheless, he believes the company may open a new store within the next two years. "But for the time being, we're going to concentrate on expanding the physical dimensions of our current units."

Backwater dealers adjust or perish in competitive quicksand

(Continued from page 136)

ral towns, typified by those along the Mexican border.

"In Laredo or McAllen or Browsnville, you can drive for 500 miles and not see anything," says Hahs of Builders Square, a lifelong Texan, who adds that customers have been known to travel 100 miles to shop the chain's Corpus Christi store.

One market that Higginbotham Brothers serves, Gustine, has only 400 people.

Dealers operating in backwater areas used to be insulated from competition. But that no longer appears to be a viable strategy, as several of the larger home center operators—Home Depot, Builders Square, Foxworth-Galbraith, McCoy's—are showing more more confidence in the Texas economy by opening new stores that are, in essence, shrinking the state.

"Right now, we're opening stores as fast as we can find sites and train managers," says McCoy, whose company has been opening three to five stores each year for the past several years.

Furthermore, the proliferation of discount and specialty chains (*see chart p. 137)* and the more recent influx of membership clubs—all of which give home improvement retailers heartburn in certain product categories—are bound to intensify competition. Venture Stores, for instance, is opening a distribution center to support its first five stores in Texas, to open next year. It wants to have 50 in the state.

"We're operating in small, rural markets, but big-city advertising affects us," says Randall Puckett, the president of the Alamo Lumber chain based in San Antonio. "We're competing against their prices, if not their stores."

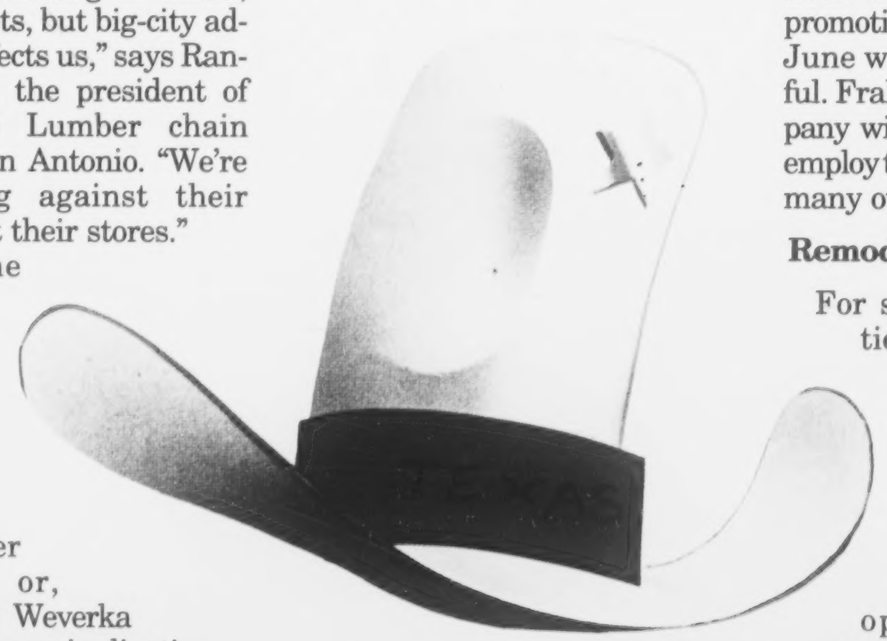
For some independent dealers, all this expansion has meant either extinction or, according to Weverka and others, marginalization.

Variable pricing takes hold

Other dealers, though, have adjusted to the new realities by devising what they hope are more aggressive merchandising and advertising plans.

Take Bartlett Enterprises in the Texas Panhandle, whose sales were up only 2 percent through the first half of 1992. Its stores maintained margins of 31 percent and generated profits that rose by 18 percent during this period using a weapon that many Texas dealers have come to embrace: variable pricing.

"Because of Wal-Mart, we had to lower prices on 20 to 30 items," recounts Tom Barlett, the company's president. "But on the 'blind' items, we're actually making more money. We're price-shopping constantly, and now Wal-Mart doesn't bother us too much anymore."



Recently, Higginbotham-Bartlett's stores (which aren't connected to either Higginbotham Brothers or Bartlett Enterprises) went to an everyday low-price strategy on paint to counter competition in that category from Wal-Mart, Sears and some home center dealers.

"We had lower margins, but more volume," says Marvin Fraley, the chain's vp and general manager, who adds that the paint sales promotion the chain ran in June was its most successful. Fraley believes his company will ultimately have to employ this kind of pricing on many other categories.

Remodelng, expanding

For some, the competition from warehouse home centers calls for a more direct, forceful response. In Austin, where Home Depot opened a second store in April, Stripling-Blake is enlarging its headquarters unit by 50 percent to 60,000 square feet, and remodeling its showroom.

Handy Hardware Wholesale recently began holding seminars for its dealer-members with Robert Potts, the design consultant, whose presentation includes more than 500 slides from stores around the country meant to stimulate remodeling and display ideas in the retailers.

Handy also offers its monthly "President's Special" promotion, where dealers can select from a group of eight products made available at rock-bottom prices, which are generally chosen from the 126 items that appear in Handy's price-sensitive items list.

This program, says Hearne, Handy's dealer services manager, is designed to keep its members from being "embarrassed" when competing against larger chains.

Strengths belie weaknesses

All this aggressiveness will be crucial to any store trying to increase its business in Texas, whose underlying problems have yet to be completely resolved.

One is unemployment, which jumped up in June to 7.5 percent, and is considerably higher in other parts of the state.

Most dealers contend that the higher numbers, which are mostly along the border, need to be taken with a grain of salt. And Dan Coleman, the president of Zarsky Lumber in Victoria, believes there's work for anyone who wants it. "We'd hire truck drivers right now if we could find some."

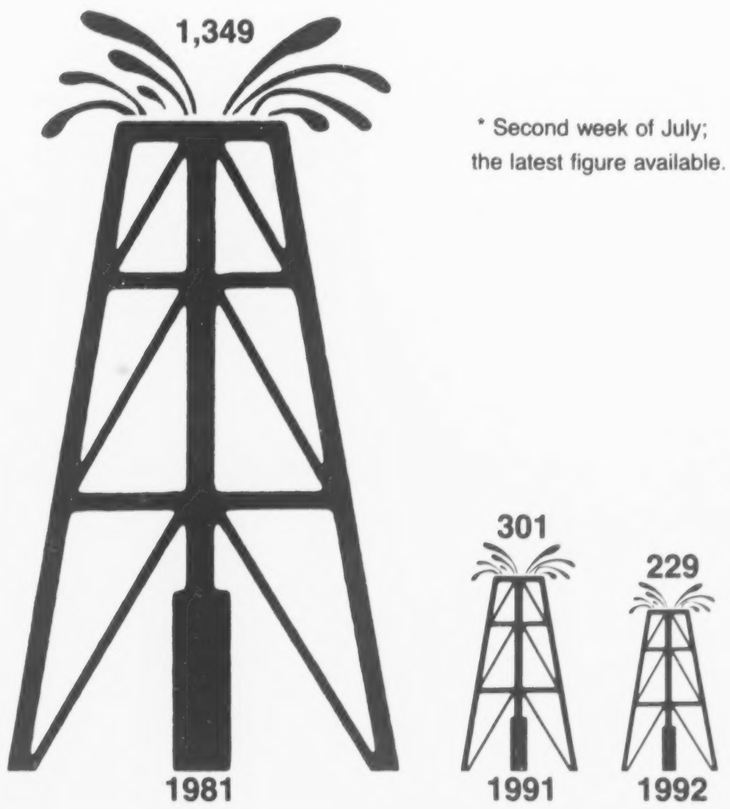
However, 400 of the 8,500 employees Amoco says it will lay off are in Houston alone. And the state's energy economy is exceedingly weak: an

(Continued on page 140)

Economic adjustments could impact retailers' plans

TEXAS RIG COUNT*

(Number of rigs drilling for oil or gas)



* Second week of July; the latest figure available.

Source: Petroleum Information Inc., Houston — *NHCN* chart

The oil industry continues to retrench after the free-fall it experienced in the 1980s.

(Continued from page 138)

oil-gas lease sale conducted by the Texas School Land Board on April 7 generated only 44 bids, the worst since 1954. "Oil companies have endured lower prices—natural gas is at an all-time low—and the big companies have made it clear they can find oil cheaper elsewhere," says Ann Leonard, southern U.S. editor for Petroleum Information Inc., a research group.

'Oil companies have endured lower prices—natural gas is at an all-time low—and the big companies have made it clear they can find oil cheaper elsewhere.'

Ann Leonard,
southern U.S. editor, Petroleum Information Inc.

Another fear is over the impact that proposed budget cuts in defense will have on the economies of towns and cities that are built around military bases. For instance, San Antonio, where there's considerable expansion activity planned by some major home improvement retailers, has five bases which could be vulnerable.

Lastly, many retailers are in areas where agriculture—livestock feed, peanuts, cotton—have been hit hard by the enormous rainfall.

"At this point, [the rain] hasn't hurt us," says Jim Johnson, Higginbotham Brothers' treasurer. "But if it keeps raining . . . ."

TEXAS UNEMPLOYMENT

Standard Metro Statistical Area	May 1992	May 1991
El Paso	10.6%	10.5%
Odessa	10.1	6.2
Corpus Christi	9.8	7.6
Laredo	9.1	9.0
Galveston	8.6	6.8
Midland	7.4	5.1
Brazoria	7.4	5.1
Dallas	7.0	5.8
Houston	7.0	5.5
San Antonio	6.8	6.4
Fort Worth-Arlington	6.8	6.4
Lubbock	6.2	5.3
Amarillo	5.6	4.9
Austin	5.1	4.4

Source: Texas Employment Commission — *NHCN* chart

This summer, Texas appears to have taken a step backward in its recovery, as the unemployment figures in its largest population areas attest. And June figures, by SMSA, were expected to be worse, as the state's unemployment rate rose to 8.3 percent that month from 7.5 percent in May, according to Commerce Department estimates.

JOBS BY INDUSTRY SECTOR

Wholesale and Retail Trade

	May 1992	May 1991
Building Materials and Garden Supplies	42,000	42,600
General Merchandise	169,600	171,500
Food Stores	242,600	238,100
Auto Dealers and Service Stations	134,500	132,800
Apparel and Accessory Stores	75,900	78,800
Eating and Drinking Places	458,100	447,700
Other Retail	184,600	186,200
Total Retail	1,307,300	1,297,700
Total Wholesale	435,500	438,000
Total Non-Manufacturing	6,274,800	6,189,700

Source: Texas Employment Commission — *NHCN* chart

Between May 1991 and May 1992, Texas gained more than 80,000 jobs, including an increase of more than 13,000 in the manufacture and milling of lumber and wood products. But building material and garden retailing saw a slight dip in its employment over that period.

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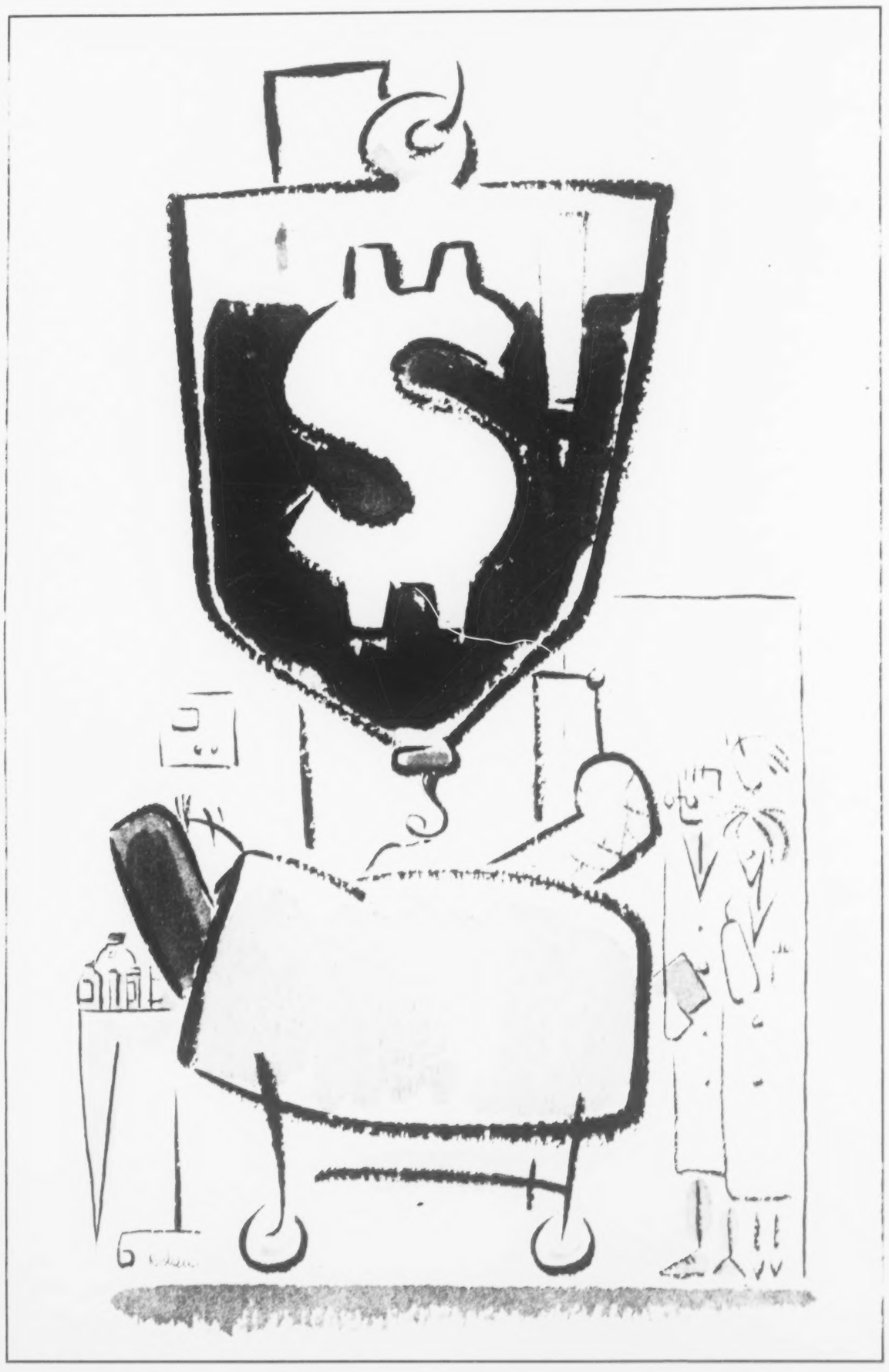
Rising health care costs shrink profits



HMOs, PPOs offer a cure

by Elizabeth Brent

NATIONAL REPORT —Just a few years ago, Cotter & Co. was presented with a $1.7 million bill for a liver transplant for one of its employees. The Chicago-based distributor was unable to negotiate with the provider or control the costs of that patient's care in any way.

Today, things are different. Cotter now belongs to a national transplant program administered by John Hancock. It has access to a selected group of national hospitals reknowned for their expertise in that area with discount rates.

Typically, the discounts are 20 to 30 percent off the first $200,000 with a cap on the total bill. The company has not had to pay a bill for transplants over $500,000 since then, according to Bob Kulowitch, group insurance manager at Cotter.

This is just one example of how dealers have changed the way they provide and administer health care, as they attempt to stem hemorrhaging medical benefits costs.

Retailers switch to managed care

Companies are quickly realizing that traditional fee-for-service indemnity plans do not offer mechanisms to control

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Prevention programs help keep a lid on health costs

Companies promote healthy lifestyle

NATIONAL REPORT—Employees at Ace Hardware's corporate office came to work in May to find an apple on their desk, together with a pamphlet about stretching exercises, that kicked off the company's wellness program.

"We also put up posters to encourage people to walk during their lunch hour," said Diane Gawle, benefits supervisor at Ace, the Oak Brook, Ill., co-op. "Then the following week we walked around the office handing out trail mix and granola bars."

Diane Gawle, benefits supervisor at Ace Hardware, with poster used to encourage employees to walk.
Photo courtesy of Ace Hardware

This is just one of many wellness and prevention programs that home improvement companies are implementing to improve their employees' health and, ultimately, reduce medical costs.

The most common of these programs concern prenatal and baby care. Because of the high number of young females among its 18,000 employees, Payless Cashways discovered that claims to cover premature infant birth and care were its largest single payout category.

So last summer, the 195-unit chain began asking women during their first trimester to complete a detailed questionnaire, offering a car seat, swing or high chair as an incentive. This allows the company to identify potential high-risk cases so that the doctor can develop a better rapport with the expectant mother and monitor her progress.

Payless worked very closely with Principal Insurance Co., also based in Kansas City, Mo., to draw up this pilot program, in what Paul Van Dyne, director of human resources, calls an evolving partnership.

HealthNet, the health maintenance organization (HMO) used by employees of All American Home Center in Downey, Calif., requires that all the physicians in its program encourage pregnant women to attend prenatal classes. It also gives out free car seats to the women who attend.

K mart and its Builders Square division introduced pre-natal education earlier this year. Associates can take home three different videotapes on neonatal care and birth. Flyers are also available at the stores that they can send in to request more information from the March of Dimes organization.

Last year, K mart introduced a well-child program that covers infants after birth for all their routine services and immunization shots, according to the company's director of employee benefits, Don Morford.

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HMOs provide attractive alternative for dealers

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costs. Consequently, these firms are turning to managed care programs such as Preferred Provider Organizations (PPOs) or Health Maintenance Organizations (HMOs).

Some companies are now making enrollment into these organizations mandatory by offering their employees no alternatives. A choice of medical carriers is a luxury that many companies, particularly independents, can no longer afford.

"It's difficult for us as Americans to face," said Don Morford, director of employee benefits at K mart. "We all want the best in health care and we have the best. But there is a cost."

The number of people enrolled in HMOs rose by nearly 32 percent in the last five years, from 25.8 million to 34 million in 1991 according to the Employee Benefit Research Institute (EBRI). Today, 25 percent of the populations of California, Minnesota and Oregon are enrolled in HMOs.

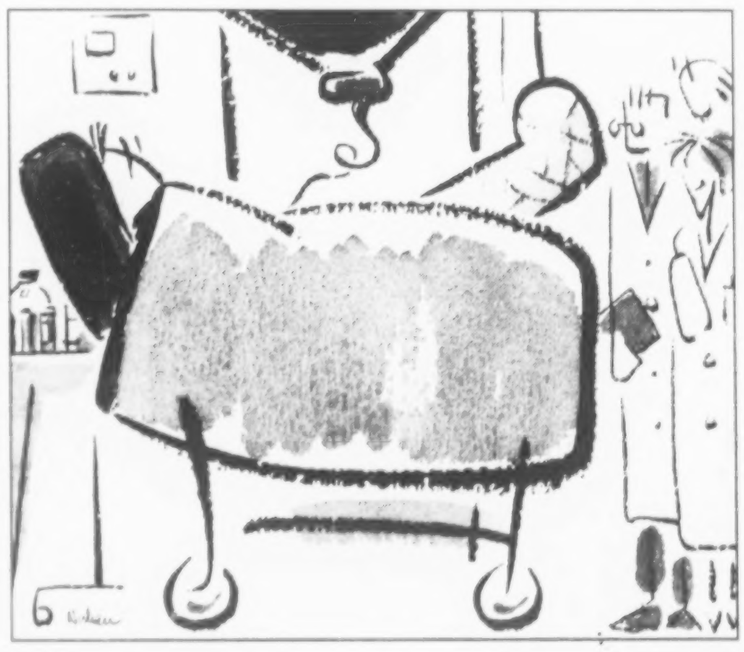
By opting for HMOs, dealers can offer their employees a defined set of services with a group of doctors for a set monthly fee, and a small co-payment per visit.

Independents like HMOs

Independent Taylor's Do-it Center, for example, switched all employees to HMO plans in 1987 after its indemnity insurance premiums rose by 50 percent one year and a further 100 percent the next.

Employees have a choice of two HMOs, Optima and a Blue Cross/Blue Shield program called Health Keepers. Since the switch, premiums have risen by a "very modest" 8 to 12 percent a year according to Judy Oliver, personnel director at the five-unit company.

"At first, employees complained about not being able to go to their own doctors, but now they realize they get a much richer benefit program that is worth the concessions they have to make," she said.



When All American Home Center in Downey, Calif., switched to one HMO, HealthNet, recently, it not only got a break on medical premiums, but also doubled its employees' life insurance benefits, according to Rob Morch, assistant vp-human resources at All American.

The PPO alternative

Other companies find that they get more flexibility and better discounts by compiling their own network of pre-approved doctors and hospitals, known as the Preferred Provider Organization (PPO).

Eighty percent of Payless Cashways' employees have chosen to belong to the PPO that the chain adopted 18 months ago. Individuals are required to go to a pre-approved group of doctors and pay $15 at the time of the visit. In the case of mental care, Payless has set a ceiling of $4,000.

Recently, Payless cut the number of physicians by half, making the system more efficient. It has been able to maintain the co-payment at $15 per visit over the last 18 months according to Paul Van Dyne, director of human resources.

Rural areas pose problem

For some companies, subscribing to HMOs and PPOs is still problematic. Employees at Lowe's, for example, are concentrated in the southeast, where PPOs and HMOs are not as well developed, according to Ed Spears, the chain's director of human resource operations.

Cotter had similar problems in providing care for its rural member stores 18 months ago. But it was able to use its size to negotiate with an existing national PPO network set up by Affordable Healthcare. The co-op saved almost half a million dollars in its first partial year of operation, according to Kulowitch.

With the escalating costs of hospital stays, the larger companies are starting pre-certification systems to evaluate whether treatment programs are really necessary.

Cotter employs four registered nurses, known as "Cotter Care," to interact with the 12,000 people from the 2,100 stores that are enrolled in the program. One of their tasks is to determine whether hospital stays, for non-emergency cases, are really necessary.

This program is far broader than most "utilization reviews," as employees and dependents can call a toll-free number for general discussion of ailments and other problems. The nurses fielded over 15,000 telephone calls last year from members, employees and providers.

Curtailing hospital stays

The success of the program is based on how many days were saved in hospital stays by this intervention and how many visits are reduced from inpatient to outpatient care.

In 1991, for example, Cotter approved 1,800 hospital admissions and the co-op calculates that nearly 1,200 days were saved. At an average cost of $800 per day, this amounts to a savings of over $960,000, according to Kulowitch.

Lowe's also uses a pre-admission review program that began in December 1989, which is administered through Crawford & Co., the Savannah, Ga.-based company. It is responsible for substantial reductions in the length of hospital stays.

Dealers are now practicing far more case management to evaluate the needs of individuals needing long-term care.

"We're very pro-active in alternative care like home health care," said Debra Wood, director, member benefit plans for the Northeast Retail Lumber Association.

In the past six months, one of its dealer-members saved over $30,000 by transferring a patient recovering from brain surgery from a hospital to her home. The patient needed to be monitored by a nurse for four hours a day but did not need to be in a hospital bed.

Unexpected results

K mart, together with its Builders Square division, recently introduced a program for employees and their families suffering from substance abuse, that focused on reducing hospital stays and transferring costs to outpatients.

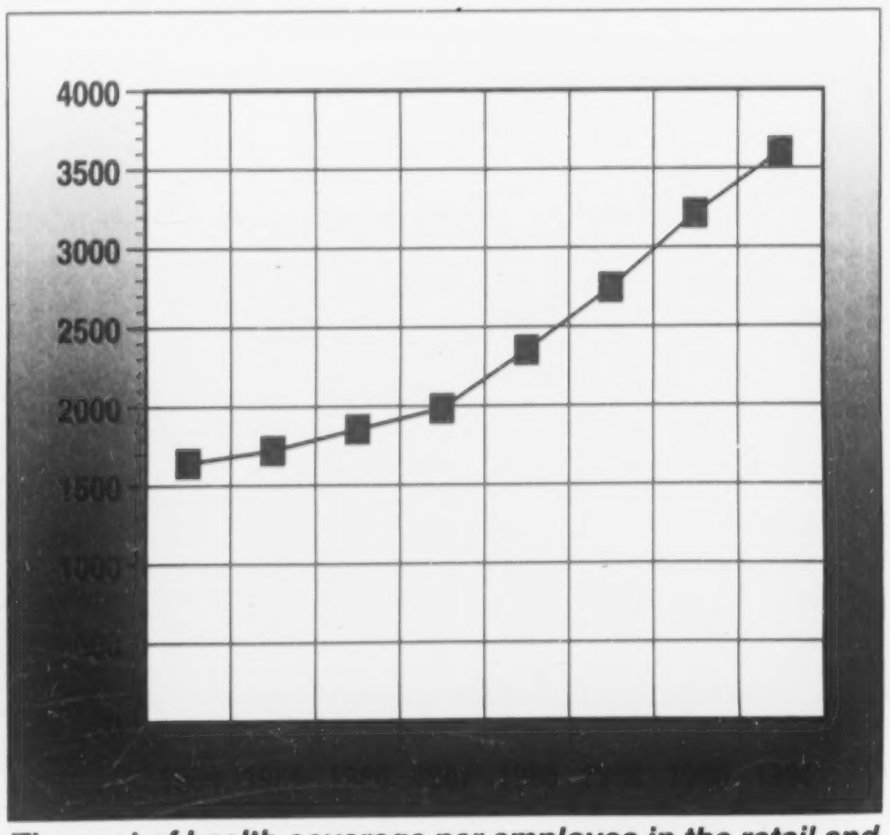
It provided appropriate counseling to all individuals instead of restricting this service to inpatients, with great savings. These came not from the healthcare plan but from reduced absenteeism and improved employee morale, according to Morford, director of employee benefits.

This story was researched with the assistance of Jeanette Hye.

AVERAGE ANNUAL HEALTH PLAN COST PER EMPLOYEE AMONG SURVEYED EMPLOYERS (1984-1991)

	1984	1985	1986	1987	1988	1989	1990	1991
All Employers	$1,645	$1,724	$1,857	$1,985	$2,354	$2,748	$3,217	$3,605
Region								
Pacific	1,898	2,024	2,173	2,246	2,426	2,943	3,260	3,659
Mountain	1,616	1,709	1,815	1,910	2,330	2,703	2,998	3,262
North Central	1,880	1,905	2,046	2,065	2,570	2,822	3,234	3,546
South Central	1,602	1,650	1,784	1,913	2,303	2,511	2,983	3,256
New England	1,578	1,663	1,828	2,063	2,216	2,896	3,361	3,918
Mid-Atlantic	1,671	1,756	1,898	1,974	2,307	2,972	3,553	4,066
South-Atlantic	1,500	1,571	1,692	1,782	2,108	2,408	2,955	3,412
Industry								
Wholesale and Retail Trade	1,398	1,424	1,518	1,762	1,915	2,208	2,494	2,891
Technical and Professional Services	1,805	1,972	2,135	1,906	2,010	2,558	2,961	3,113
Utilities	1,972	2,069	2,175	2,375	2,977	3,452	4,363	4,591
Transportation Services	1,668	1,678	1,905	2,281	2,648	2,632	3,238	4,186
Health Services	1,509	1,605	1,748	1,693	2,073	2,299	2,665	3,149

Source: A Foster Higgins & Co. Inc. *Health Care Benefits Survey, 1991.* NHCN chart



The cost of health coverage per employee in the retail and wholesale industry rose nearly 107 percent in the last eight years from $1,398 to $2,891. The Mid-Atlantic and New England regions have the highest costs in the country.

Preventive programs cut costs

(Continued from page 175)

Many companies now offer some kind of screening to help promote early cancer detection. Some, like the retailer Toys "R" Us, follow the American Medical Association guidelines for these preventive programs. These suggest the age or frequency to conduct pap smears, checks for rectal colon cancer and mammographies.

The Estate of George Snyder now uses a clinic on wheels that comes to its single unit in Hatfield, Pa., for mammography screening. It is far cheaper to schedule appointments for its employees and spouses this way than having it done in hospitals or through private doctors. The company hopes to use the health van for other cancer testing services in the future, according to Frances Deimeyer, personnel assistant.

Many dealers have added smoke cessation classes, too. One building material distributor offered participants who quit smoking for more than three months a chance to change their insurance coverage status to non-smoking and, as a result, realize considerable savings. To date, 20 out of the 675 people insured have quit.

EMPLOYER SPENDING FOR HEALTH INSURANCE

Total Employer Outlays for Group Health Insurance and Medicare Hospital Insurance, and Employer Health Spending as a Percentage of Total Compensation and Gross National Product (GNP)

Year	Employer Spending on Private Health Insurance ($ billions)	Employer Spending on Medicare Hospital Insurance ($ billions)	Health Care as a % of Total Compensation	Employer Health Care Spending as a % of GNP
1975	$ 25.5	$ 5.6	3.3%	1.9%
1976	32.0	6.2	3.6	2.1
1977	38.8	6.9	3.9	2.3
1978	46.0	8.6	4.1	2.4
1979	52.6	10.5	4.2	2.5
1980	61.0	11.6	4.4	2.6
1981	71.7	15.9	4.8	2.9
1982	82.6	16.8	5.2	3.1
1983	91.5	18.7	5.4	3.2
1984	100.3	20.6	5.4	3.2
1985	107.4	22.7	5.5	3.2
1986	113.7	26.1	5.5	3.3
1987	122.9	27.7	5.6	3.3
1988	138.7	29.6	5.8	3.4
1989	157.7	31.8	6.1	3.6
1990	174.2	33.6	6.3	3.8

Source: Employee Benefit Research Institute Databook on Employee Benefits, Second Edition. *NHCN* chart

Employer spending for private health insurance almost tripled in the last decade, with health care taking an increasing share of the benefit package.

BENEFIT SPENDING BY TYPE OF BENEFIT

Employer Spending for Employee Benefits as a Percentage of Payroll, 1990

Type of Benefit	All Companies	Manufacturing	Non-manufacturing
Total benefits	*38.4%*	*40.1%*	*37.4%*
Legally required	8.8	8.9	8.8
Retirement and savings	5.5	5.6	5.4
Life insurance	0.5	0.5	0.5
Medical benefits	9.9	11.6	8.9
Major medical	7.3	8.4	6.7
Retiree medical	1.0	1.4	0.7
Short-term disability	0.4	0.5	0.3
Long-term disability	0.2	0.2	0.2
Dental insurance	0.6	0.3	0.4
Other	0.4	0.3	0.4
Paid rest periods	2.4	2.1	2.5
Paid time off	10.5	10.9	10.3

Source: Employee Benefit Research Institute Databook on Employee Benefits, Second Edition. *NHCN* chart

Employers spent 38.4 percent of their total payroll on benefits in 1990, with medical benefits representing nearly 10 percent of the total payroll.

EMPLOYEE CONTRIBUTIONS TO HEALTH INSURANCE IN MEDIUM AND LARGE PRIVATE ESTABLISHMENTS*

Average Monthly Employee Contributions to Medical Plan Benefits by Type of Coverage

Type of Coverage and Position	1988	1989
Total individual coverage	*$19.29*	*$25.31*
Technical and clerical	19.23	25.95
Professional and administrative	19.09	21.57
Production	19.48	27.43
Total family coverage	*60.07*	*72.10*
Technical and clerical	63.70	79.53
Professional and administrative	59.27	72.76
Production	58.31	67.18

*These tabulations provide representative data for 32 million full-time employees in private non-agricultural establishments with 100 or more employees in the District of Columbia and in all states except Alaska and Hawaii.

Source: Employee Benefit Research Institute Databook on Employee Benefits, Second Edition. *NHCN* chart

Employee contributions to health insurance rose 31 percent for individual coverage, and by 20 percent for family coverage between 1988 and 1989.

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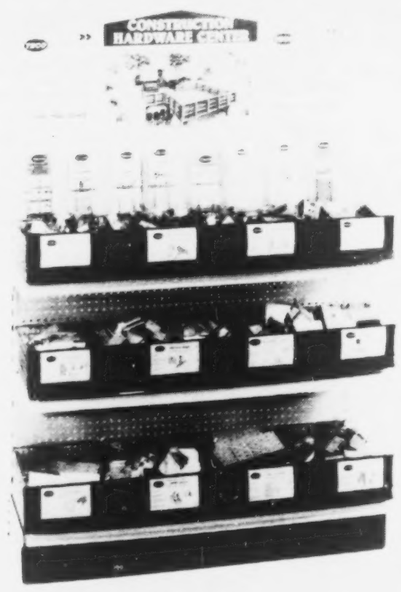

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Environment, mass market key trends

(Continued from page 6)
race, thanks to the power demands of both mulching and self-propulsion mowers, continues apace.

Environmental impact

The mulching trend was apparent in the offering by such vendors as MTD, Murray, Dynamark and O. M. Scott, who included mulching capability on virtually all their mowers, both walk behind and riding. Convertibility is the buzzword for 1992. Two types of mulchers are usually offered: a dedicated model that can only mulch; and optional kits that convert a side discharge or rear-bagging mower into a mulcher.

The mulching kits add about $15 to the cost of a walk behind and about $40 to a rider.

The advantage of the convertibility feature is that gardeners can mow conventionally if their lawns get too long for effective mulching.

Cities such as Pittsburgh this year and Chicago last year are pushing the mulching movement by banning grass clippings and other yard waste from their dumps.

Another environmental consideration, air pollution, will affect the power equipment industry by the end of the decade. Briggs & Stratton contends that the stringent California exhaust emissions for mower engines will significantly affect the cost of engines when they take effect in 1999.

Engine manufacturers might have to add catalytic converters, as well as change cylinder molds in order to meet those standards, said Steve Rugg, vice president, sales and marketing. A catalytic converter for a mower engine now costs between $9 and $11.

Mass market draws vendors

Airens, Homelite and Yard Man are but three of the two-step vendors that are pursuing home centers and discount chains.

Airens is testing its products in three Lowe's home centers, and Lowe's buyers, including divisional merchandise manager Wade Sanders, were looking over additional Airens products at the show.

Among the new Airens products is a walk-behind mower with rotating front wheels that results in a zero-radius turning ability. The company added the new feature to a self-propelled, 5½-horsepower model. The easy turning feature adds about $30 to $599 retail.

Discount Store News photo

The lawn and garden industry is being shaped by the need to respect the environment; develop the mass market; and emphasize competitive distinctions.

Homelite announced it is responding to various market segments by introducing three distinct lines of products: one for the mass market, another for servicing dealers and a third line for professional landscapers.

Three mass market products introduced by Homelite were the Mudbuster power sprayer for home, car and boat cleaning projects, about $250 at retail; a lightweight tiller, also about $250; and a lightweight edger, about $170.

Yard Man, an MTD brand, has restructured its offerings to just a mass market line of three walk-behind mowers, three riders (all with mulcher capability) and a chipper.

Colorful marketing emerges

To emphasize its new direction, Yard Man has changed colors to yellow and metallic green from red.

Dynamark has also given up on red in favor of teal, with cream trim.

In still a third change, Rally has changed from its green and yellow to red. It explained that the change will differentiate itself from its sister company, Weed Eater, which uses green and yellow for its mowers and string trimmers.

But Murray is sticking with its red and orange motif.

In a burst of fashion color, Briggs & Stratton has gone beyond basic black to offer engines in a variety of designer hues. Vendors now can gussy up their mowers with engines painted lime green, royal blue, lemon yellow and a purple hue Briggs & Stratton dubs "California Raisin."

New products introduced

Because of the increased power demands of self-propulsion and mulching, 40 percent of the walk-behind mower engines Briggs & Stratton will sell this year will pack 4 to 5½ horses.

Both Briggs & Stratton and Tecumseh introduced 5½-horsepower engines at the show, and both offer an engine midway between 3½ and 4 horsepower.

Other new products include a Ryobi cordless, mulching mower that will retail for about $400.

A lead-acid battery that features a leakproof gel electrolyte will power the 18-mower for 90 minutes, or long enough to mow ½ an acre, Ryobi claims.

Builders Square, along with Home Depot and Home Quarters Warehouse, are among the home centers that have committed to another new product at the show, the Lazy Boy chipper/vac.

A product of Parmi Tool, a Garden Way company, the walk-behind Lazy Boy vacuums leaves and shreds them into a rear bag. A hand-fed chipper can take branches of up to 1½ inches in diameter.

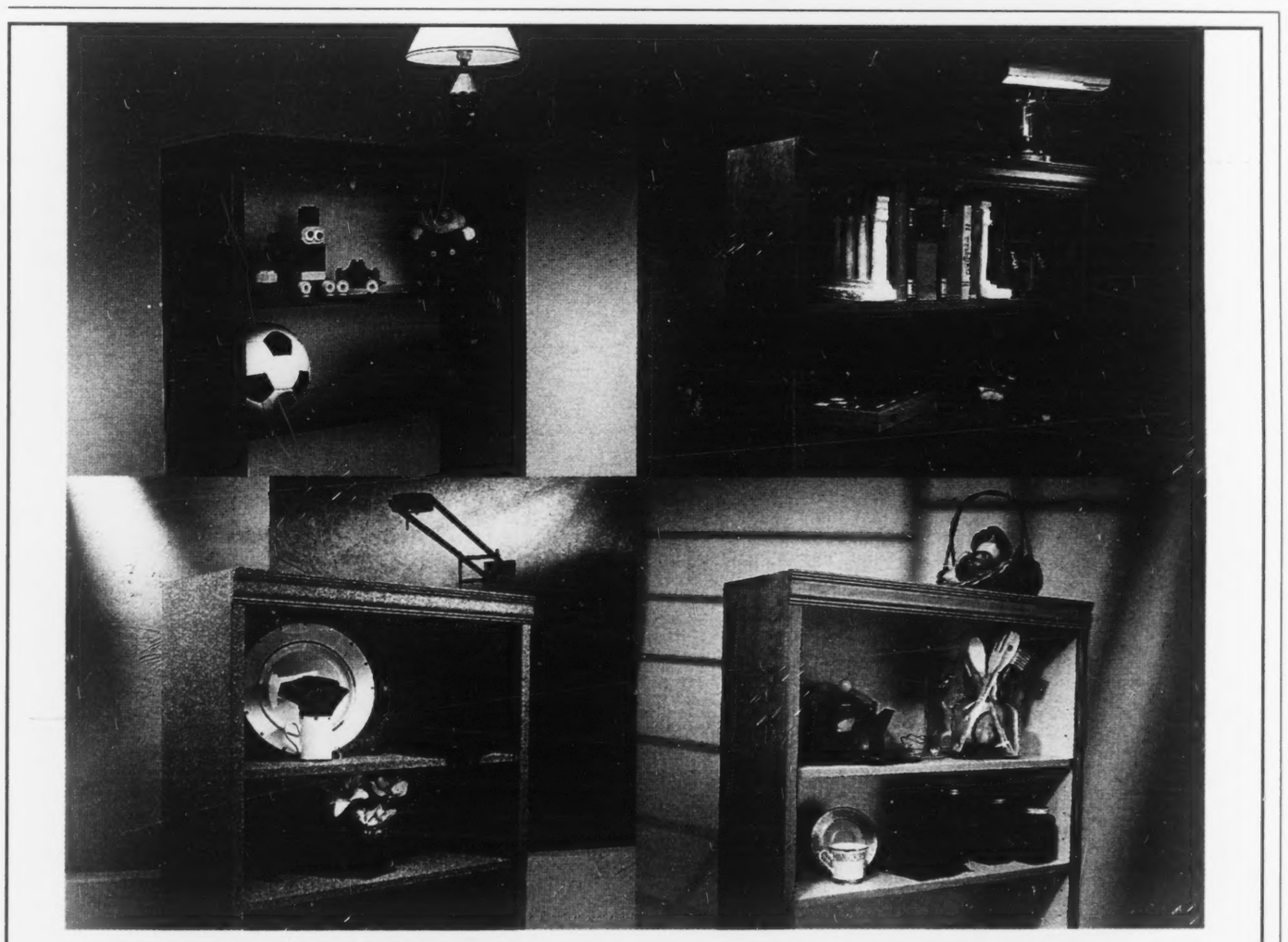
Sears introduced the Lazy Boy this spring under its Craftsman label at a list price of $449, or $399 on ad. Home Depot tested it in New Jersey at $388.

Troy/Bilt, a sister company of Parmi, introduced two, more-powerful walk-behind chipper shredders based on the same concept. A 4-horsepower push model will list for $1,099, while a 5-horsepower, self-propelled version lists for $1,399. At the Dynamark booth, Bill Hogan, seasonal buyer for Home Depot, was "just looking" at the three new shredders Dynamark introduced.

"We see the stuff in advance from our existing vendors," Hogan said. "We come to the show to talk to people we normally don't do business with."

At the Rain Bird display, Charlie Wilson, seasonal merchandise manager for Scotty's, Winter Park, Fla., was investigating drip irrigation systems.

Drip irrigation is big in California but is "just beginning to catch on" in Florida, he said.



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ServiStar offers to bail out CBS

(Continued from page 3)

ServiStar did not extend this offer to be a temporary supplier to all 280 owners, some of whom, according to CBS documents, owe the company between $5 and $6 million with debts that go back two years.

The CBS venture will strengthen the ServiStar organization, which is already the third largest dealer-owned co-op with members in 48 states. The arrangement is somewhat similar to ServiStar's action two years ago when it set up a separate entity for Coast to Coast, the hardware co-op which, unlike CBS, had filed Chapter 11. But Coast, being a hardware co-op, also had a network of distribution centers. CBS, as a lumber and building materials broker, deals directly with the mills.

McKitrick ends 21 years at BE

(Continued from page 3)

ny may slow down its aggressive plans.

McKitrick's new assignment, Central Tractor, operates stores in rural markets throughout the Northeast and Midwest and specializes in products geared towards farm improvement, said Dean Longnecker, senior vp-finance at Central Tractor.

The stores sell some home improvement products, like hardware, electricals and plumbing, but most of the customers are farmers who need repair products for their farms.

"You couldn't buy all you need to rewire your home, but you could buy the products to rewire a barn," he said.

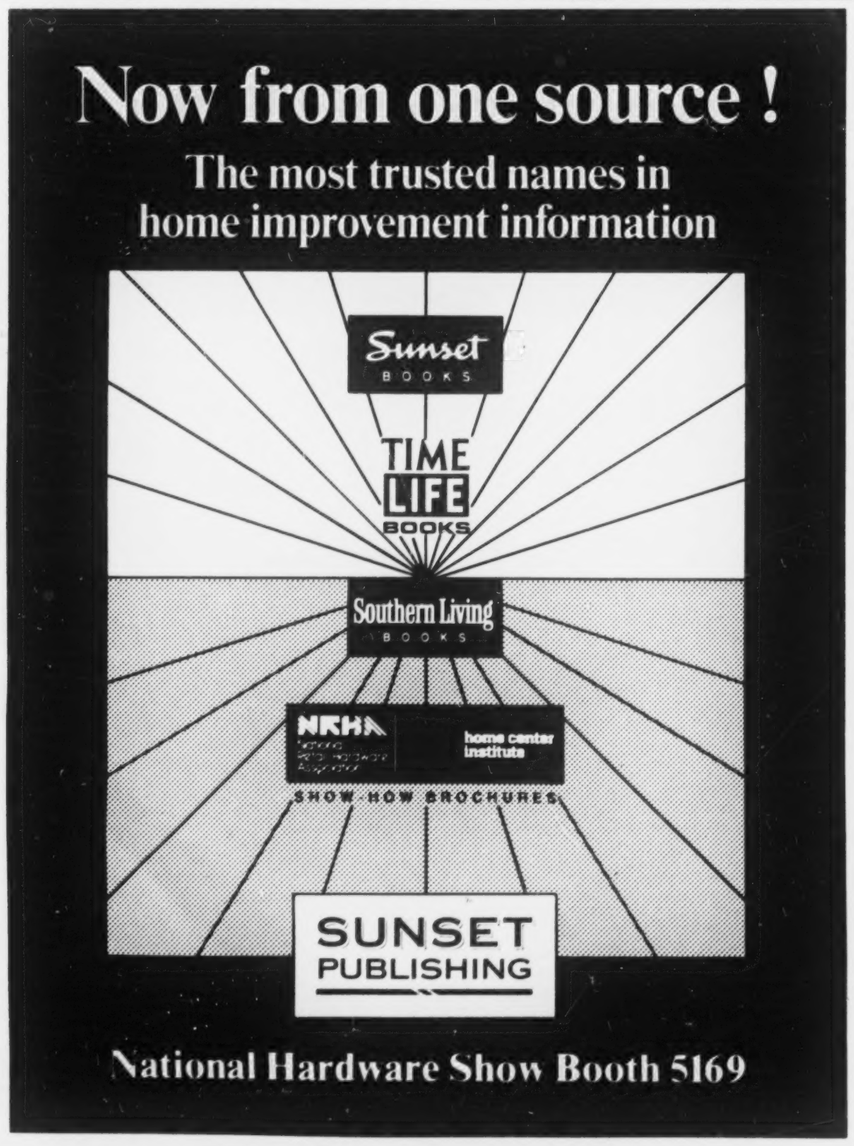
Central Tractor's former president, Elliott Brody, is leaving the post to become chairman of the board.

CLARIFICATION

A chart on page 52 of the Distributor Scoreboard issue of *National Home Center News* (May 11), indicated that annual sales for ServiStar, the nation's third largest hardware cooperative, headquartered in Butler, Pa., declined 2.1 percent to $1.322 billion in 1991 from $1,361 billion a year earlier.

As noted, this year-to-year comparison was arrived at by including in the 1990 figure sales for Coast to Coast, a hardware cooperative that ServiStar acquired in September of that year.

In fact, when Coast sales are removed from the year-to-year comparison, ServiStar shows a 14.7 percent gain in volume from $1.161 billion to $1.332 billion.



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Lowe's expansion charges ahead

'100++' could equal $10 bil. by 2000

by John Caulfield

NORTH WILKESBORO, N.C. — Lowe's Cos. will accelerate its store growth dramatically next year, when it plans to open 60 stores, between 35 and 40 percent of which will be 100,000 square feet or more. This is part of an even larger strategy to increase the company's revenues to more than $10 billion by the year 2000.

The news of this expansion ended what was a tumultuous two-week period for the industry's second largest home center dealer.

During this period, Lowe's named a new executive vp-store operations who came from the mass merchant and office warehouse field; reported the first quarter in its history to exceed $1 billion in sales; and saw its stock price plunge by more the $4 per share despite the fact that its quarterly earnings rose by 18 percent.

NHCN photo

Robert Strickland

"The market has been unforgiving," said Robert Strickland in an interview with *NHCN* at the Hardware Show in Chicago earlier this month. "As Einstein proved, we are living in a world of relativity."

There's nothing relative about the fact that the 306-unit chain is launching a more aggressive defense against the rapid onslaught of warehouse-style home improvement centers (read: Home Depot) into its southeastern markets.

Unveils '100-plus-plus' strategy

In a meeting with vendors at the Show, the details of which Strickland disclosed to this newspaper, Lowe's explained what it's calling its "100-plus-plus" strategy.

By the end of this year, Lowe's is scheduled to have opened 39 new stores, of which 35 are relocations of small units into larger stores ranging in size from 65,000 to 100,000-plus square feet. The four other stores are in new markets. (For this expansion, the company took a $71.3 million charge in the fourth quarter of 1991.)

(Continued on page 44)

HWI teams up with top Canadian co-ops

Will extend international reach

FORT WAYNE, Ind. — In a move to expand its international reach and thwart competition to the north, Hardware Wholesalers Inc. (HWI) agreed to develop purchasing, operations and marketing programs with two of Canada's largest co-ops.

HWI, the fourth-largest dealer-owned buying group in North America, now joins forces with Ro-Na Alliance Home Inc., which includes Home Hardware in St. Jacobs, Ontario, Canada's largest buying group with sales last year of $650 million from 904 affiliated dealers operating 970 stores; and Le Groupe Ro-Na Dismat, the Quebec-based buying group with sales last year of around $380 million from 379 dealers operating 460 outlets.

"We found that the three companies' cultures are very similar, with a focus on keeping the independent dealer competitive," said Mike McClelland, HWI's executive vp. "We see this as a tremendous opportunity to help each other."

Robert Harritt, Ro-Na's vp-finance, also noted

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Traffic heavy at Hardware Show

New Building Products Expo draws strong reviews

CHICAGO — The environment, a new building materials show, a call to vendors and dealers to "partner or die," and the unveiling of an ambitious expansion plan from the Lowes Cos. were the highlights of the 1992 National Hardware Show that was the busiest and possibly the most upbeat in the last several years.

The American Hardware Manufactures Association (AHMA), sponsoring organization of the 2,700-booth show, said both preregistration and on-site registration for the show were up 30 percent over 1991 figures when an estimated 64,000 persons attended.

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NHCN photo

Gov. John Sununu (right), former White House chief of staff, talks with William Farrell, AHMA president, at the Show.

NHCN photo

HomeBase: 27, Home Depot: 8
Charity: $270K

Jim Halpin (third from left), HomeBase's president, shakes hands with Arthur Blank, his counterpart at Home Depot, after HomeBase whipped its warehouse rival in a softball game that raised money for The City of Hope medical center. To Halpin's right is HomeBase's vp-merchandising Bill Pena, one of the game's stars. For details, see p. 5.

Pergament Home Center's ceo, Alan Kane, resigns

Bank lender sealed his fate

by Gary S. Ruderman

MELVILLE, N.Y. — Acceding to the demands of the chain's main bank lender, the president of Pergament Home Centers resigned on Aug. 21.

Alan Kane, who came to Pergament 18 months ago from the department store field, said he was asked to leave last March but stayed on to handle "the difficult decisions" made in the last six months to save the East Coast chain.

Robert Tammero, the former president of Bloomingdale's who was brought in earlier this year by the company's investor-own-

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